Core Plus Fixed Income

Quarterly Review

- Out-of-benchmark exposure to LATAM non-US dollar denominated issues positively contributed to performance as the sector generated some of the highest excess returns within the strategy. Within the allocation, bonds denominated in Brazilian real were the strongest performers.
- Exposure to shorter duration asset classes, including out-of-benchmark exposure to high yield credit and an overweight to securitized credit had a positive impact on sector allocation during the quarter; however, the decision to underweight agency MBS pass-throughs was a partial negative offset.
- Yield curve positioning, underweight to the 2-year segment of the curve and overweight to the belly (5-10 year segments), was a positive, as 2-years repriced sharply higher in March.
- Security selection within investment grade corporates was the most impactful detractor from overall performance, with selections in refining, metals and mining and electric utilities weighing heaviest on returns.
- Within securitized agency, underweighting Ginnie Mae agency MBS pass-throughs marginally detracted, offsetting positive results from an overweight to lower coupon Fannie Maes.
- Security selection in the government-related sector also produced negative excess returns, as bonds issued by emerging market entities underperformed.

Outlook

- Fixed income markets delivered negative returns for the first quarter, as the US-Israeli attacks on Iran pushed oil prices above $100/barrel, renewing concerns that inflation would prevent the Federal Reserve (Fed) from easing in the near term. Risk appetites waned with increased geopolitical risk, artificial intelligence disrupting software companies and liquidity concerns of private credit funds suffering from heavy redemptions. The risk off sentiment impacted risk premiums and inflation premiums. The US term structure bear flattened with the short maturity yields rising more than longer term yields as market participants forecasted less monetary accommodation and a higher inflation impulse. Equities declined and credit spreads increased as investors favored higher quality assets with more economic uncertainty ahead.

- We are monitoring corporate fundamentals, which we expect will remain at a healthy level in aggregate, even as we expect corporate borrowing to pick up. US GDP growth in the first quarter of 2026 may be flattered by higher tax refunds and AI-fueled business spending. However, increases in the cost of energy and other key inputs alongside rising debt service costs suggest corporate margin compression going forward. On the consumer front, we believe that increasing impatience with higher prices, softer labor market conditions, and the continued decline in excess savings are potential catalysts for weaker spending.

- We continue to believe that we are in the late expansion phase of the credit cycle, with growth slowing to below trend. We expect inflation will subside after this temporary increase in energy prices. We believe the Fed is on hold over the next period to observe the impacts of higher energy costs and is not likely to tighten monetary policy from

here. While we do not anticipate that the US will enter a recession, we continue to see elevated risk of a downturn scenario, which is not adequately reflected in compressed credit spreads and in rates markets currently. Market volatility and term premiums may remain elevated due to ongoing military interventionism and continued concerns over the growing fiscal burden, although a quicker resolution to the current military operations in Iran could clear the path towards one to two Fed Funds cuts late in 2026 as the current energy price "tax" wears on consumption.

- We continue to maintain an "up in quality and price transparency" bias in the portfolio, given our base case view that the economy is likely to slow and that risk premiums are depressed. We currently hold over 40% of the portfolio in US Treasurys. We expect Treasurys to be supported by slowing economic activity and geopolitical tensions. Importantly, we have significant liquidity for re-entering spread markets should valuations cheapen meaningfully from current levels.

- During the quarter we increased overall duration as yields rose and the curve flattened. We are currently targeting a nominal duration that is roughly ½ year longer than the benchmark. We added a modest treasury inflation-protected securities (TIPS) break-even trade for carry and protection against sharply higher oil prices earlier in March. In nominal US treasury space, we continue to favor the belly (5-10 year) of the yield curve, which we believe currently offers better relative risk/reward in alternative scenarios including a sharper than anticipated economic slowdown.

- During the quarter, we reduced our underweight to agency mortgage-backed securities, when interest rate volatility provided potentially more attractive pricing. We continue to emphasize favorable convexity and structure through coupon and specified pool selection.

- Within investment grade corporate credit, we remain underweight on both market value and contribution-to-duration measures. However, we do have a bias towards BBB-rated securities, as we believe they offer attractive valuations within a sector where overall Index spreads are close to historical tights. We continue to favor industries that have benefitted from higher rates, such as banks and business development companies, and those with favorable demand dynamics such as aircraft leasing companies.

- We have a large overweight to high quality investment grade securitized credit, primarily in the front end of the yield curve, for more defensive, non-corporate carry. We continue to favor higher-rated asset-backed securities (ABS) related to consumer receivables, as well as aircraft-related, automotive rental fleet, infrastructure, and whole loan ABS. We have minimal exposure to commercial real estate.

- Within the Plus sectors, our allocation to high yield continues to be managed with a bias towards higher quality and more defensive industries and remains around 4.6% in total, including 3.3% in developed fixed rate high yield corporates, and an additional 1.3% in emerging market high yield credit. We remain at the low end of our historical allocation range in fixed rate high yield given stretched valuations, and continue to favor front-end, lower spread duration yield. We also continue to favor high-quality, investment grade collateralized loan obligations (CLOs) where permitted, and currently have approximately 5.2% (In accounts where guidelines do not allow CLOs, we have maintained an approximately 4.7% exposure to bank loans).

- We are maintaining the same level of overall portfolio credit risk but have been trading out of issuers which we believe have more limited upside potential in favor of new issues with more attractive concessions.

- We trimmed our non-US dollar exposure on strength by reducing the position in Mexico by half. Currently, non-US dollar exposure is approximately 2.2% of total market value, with 0.9% in Uruguay, 1.0% in Brazil, and 0.25% in Mexico. We continue to favor the significant carry and diversification potential versus the US dollar from these positions.

Important Disclosure

Key Risks: Credit Risk, Issuer Risk, Interest Rate Risk, Liquidity Risk, Non-US Securities Risk, Currency Risk, Prepayment Risk and Extension Risk.

Past performance is no guarantee of future results.

There is no guarantee that the investment objective will be realized or that the strategy will generate positive or excess return.

Commodity interest and derivative trading involves substantial risk of loss.
Diversification does not ensure a profit or guarantee against a loss.
Any investment that has the possibility for profits also has the possibility of losses, including loss of principal.

Market conditions are extremely fluid and change frequently.

This marketing communication is provided for informational purposes only and should not be construed as investment advice. Any opinions or forecasts contained herein reflect the subjective judgments and assumptions of the authors only and do not necessarily reflect the views of Loomis, Sayles & Company, L.P. Investment recommendations may be inconsistent with these opinions. There is no assurance that developments will transpire as forecasted and actual results will be different. Data and analysis does not represent the actual or expected future performance of any investment product. Information, including that obtained from outside sources, is believed to be correct, but Loomis Sayles cannot guarantee its accuracy. This information is subject